

FISCAL NOTE

HB 1965

April 29, 1999

SUMMARY OF BILL:

- Removes all sales tax exemptions outlined in TCA Title 67, Chapter 6, Part 3.
- Eliminates the state sales tax on food.
- Deletes TCA Title, 67, Chapter 4, Part 8 the current Excise Tax Law.
- Deletes TCA Title 67, Chapter 4, Part 9 the current Franchise Tax Law.
- Adds a new section TCA Title 67, Chapter 4, Part 20, known as the Excise Tax Law of 1999.
- Adds a new section TCA Title 67, Chapter 4, Part 21, known as the Franchise Tax Law of 1999.
- Extends the franchise and excise tax to all corporations, subchapter S corporations, limited liability companies, professional limited liability companies, registered limited liability companies, professional registered limited liability partnerships, limited partnerships, cooperatives, joint-stock associations, business trusts, regulated investment companies, real estate investment trusts, state chartered or national banks, state or federally chartered savings and loan associations, general partnerships, and sole proprietorships.
- Includes in "net earnings" of a taxpayer an amount equal to the compensation paid to employees which exceeds \$72,000 per employee.
- Adds a new section to TCA 67-1-1440, which makes it a Class E felony for any person willfully to attempt in any manner to evade or defeat any tax imposed under Chapter 67.

ESTIMATED FISCAL IMPACT:

Increase State Revenues - Net Impact - \$1,234,997,000 FY99-00

Net Impact - \$880,667,000 FY00-01 and Subsequent Years

Increase State Expenditures - Exceeds \$3,000,000 Recurring

Exceeds \$2,000,000 One-Time

Increase Local Govt. Revenues - \$260,521,700

Estimate assumes the following:

- The total net increase in state revenues in FY99-00 is estimated to be approximately \$1,234,997,000, as shown below:

<u>Tax</u>	<u>Increased State Revenues</u>
Franchise and Excise Tax (Increase)	\$339,327,000
Sales Tax Exemptions Removed (Increase)	950,000,000
Sales Tax on Food Exemption (Decrease)	(204,330,000)
Implement Quarterly Franchise Tax Payments (One-Time Increase)	150,000,000

- Eliminating the sales tax on food would take effect on January 1, 2000.

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- The total net increase in state revenues in FY00-01 and subsequent years is estimated to be approximately \$880,667,000, as shown below:

<u>Tax</u>	<u>Increased State Revenues</u>
Franchise and Excise Tax (Increase)	\$339,327,000
Sales Tax Exemptions Removed (Increase)	950,000,000
Sales Tax on Food Exemption (Decrease)	(408,660,000)

- The total increase in local government revenues is estimated to be approximately \$260,521,700 as shown below:

<u>Tax</u>	<u>Increased Local Govt. Revenues</u>
Excise Tax Apportionment (Increase)	\$ 10,521,700
Sales Tax Exemptions Removed (Increase)	250,000,000

- The increase in state expenditures resulting from implementing changes to the tax structure is estimated to exceed \$3,000,000 in recurring costs and exceed \$2,000,000 in one-time costs.
- Local governments will receive a share of the revenues generated according to apportionment formulas.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James A. Davenport, Executive Director